

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

June 25, 2007

Dick Larsen, Treasurer-Tax Collector/Public Administrator
County of San Bernardino
Office of the Treasurer and Tax Collector
172 West Third Street, First floor
San Bernardino, CA 92415-0360

SUBJECT: AUDIT OF INTEREST APPORTIONMENT

Background

In compliance with Article V, Section 6, of the San Bernardino County Charter, and the Board of Supervisor's Policy Statement 02-02 on Internal Operational Auditing, we completed an audit of interest apportionments for the San Bernardino County Treasurer-Tax Collector.

California Government Code 53645 requires the payment of interest earned, for active deposits, to be computed on the average daily balance and paid quarterly to depositors. California Government Code 27013 authorizes the County to deduct actual administrative cost, such as investing and handling costs, from the interest earned before apportioning the earnings.

The Treasurer-Tax Collector determines the amount of interest apportioned to contributing funds on a quarterly basis. The Treasurer Division calculates investment earnings based on the average daily balance of pooled funds by depositors. The Accounting Division compiles the administrative costs and reports it to the Treasurer Division to deduct from investment earnings. Budgeted expenses, allocated for the fiscal year, are deducted for the first three quarters from investment earnings. In the fourth quarter, the Accounting Division adjusts administrative costs to charge the funds the actual amount instead of the budgeted amount.

Scope of Audit

Our overall objective was to determine whether the Treasurer-Tax Collector Accounting Division apportioned interest pursuant to applicable California Government Codes for the fiscal year ending June 30, 2006. Specifically, we determined whether:

- a. Actual administrative cost of investing and handling the investments were deducted from the interest earned prior to apportionment; and,
- b. Interest earned was computed based on the average daily balance and paid quarterly.

We conducted our audit in accordance with the Standards for the Professional Practice of Internal Auditing. Our audit included tests of expenses, tests of fund's average daily balances, and other procedures considered necessary.

Overall Conclusion

The Treasurer-Tax Collector Accounting Division fairly apportioned interest for fiscal year June 30, 2006. However, we noted specific areas for improvement, which are discussed in the Findings and Recommendations section of this report.

A draft report was sent to the Department on May 15, 2007 and was discussed with management on May 22, 2007. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: The process for calculating administrative costs does not fully comply with California Government Code 27013.

California Government Code 27013 authorizes the deduction of actual administrative cost, such as investing and handling costs, from the interest earned before apportioning the earnings.

In calculating the administrative costs, the Finance Officer used percentages from a costs analysis conducted by Vavrinek, Trine, & Day in 2003, versus using 2006 actual production hours.

The Finance Officer could not provide support for some of the administrative costs figures reported to the Treasurer Division. Further, the Accounting Division did not retain documented support for all administrative costs in their office.

Consequently, the Treasurer deducted inaccurate costs from investment earnings before apportioning interest. Although the inaccuracies were immaterial, administrative costs were \$27,000 overstated and \$37,000 understated for a net understatement of \$10,000.

Finding 1: The process for calculating administrative costs does not fully comply with California Government Code 27013. - Continued

Recommendation:

- a. The Accounting Division Finance Officer should use actual salary and benefit costs, applied to actual applicable production hours in compiling the administrative costs. To track actual applicable production hours, it is suggested implementing a time capturing system (such as, daily timekeeping on a spreadsheet, possibly using labor distribution codes) to track actual applicable production hours.
- b. The Accounting Division Finance Officer should retain all support documentation and verify the accuracy of administrative costs prior to reporting to the Treasurer Division.

Management's Response:

The Treasurer Tax-Collector's Office is in the process of preparing an updated fee cost analysis. The new analysis will be used for fiscal year 2007/08. Actual costs will be applied to the cost allocation percentages determined in this fee cost analysis. The fee cost analysis will be updated on a bi-annual basis. In addition, the Treasurer Tax Collector's Office will develop the necessary procedures to ensure supporting documentation is available for audit purposes.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Finding 2: Lack of written policies and procedures for the compilation of administrative costs.

Written policies and procedures for compiling costs are needed to clarify requirements and provide consistency in performing the compilation of administrative costs. The Treasurer-Tax Collector Accounting Division did not have any written policies procedures regarding compilation of administrative costs.

The Accounting Division Finance Officer was aware of the process for compiling administrative costs; however, specific policies and procedures had not been documented.

The lack of documented policies and procedures could result in misinterpretations by personnel, resulting in an inaccurate reporting of costs deducted from investment earnings.

Finding 2: Lack of written policies and procedures for the compilation of administrative costs. - *Continued*

Recommendation:

- a. The Accounting Division Finance Officer should document, and provide staff, policies and procedures for compilation of administrative costs, and ensure they comply with California Government Code 27013.
- b. The Accounting Division Finance Officer should periodically verify that all staff involved in compiling administrative costs is following the policies and procedures.

Management's Response:

The Treasurer Tax-Collector's Office will develop written policies and procedures to identify and document the full cost of delivering the Treasury function in accordance with California Government Code 27013.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____

Howard M. Ochi, CPA
Chief Deputy Auditor

Quarterly copies to:

County Administrative Officer
Board of Supervisors (5)
Grand Jury (2)

Audit File (3)

Date Report Distributed: 10-4-07